

Message Text

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ACTION EB-08

INFO OCT-01 AF-10 ARA-10 EA-10 EUR-12 NEA-10 ISO-00

FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00 COME-00

DODE-00 FPC-01 H-01 INR-07 INT-05 L-03 NSAE-00

NSC-05 OMB-01 PM-05 USIA-06 OES-07 SP-02 SS-15

STR-05 TRSE-00 ACDA-12 FRB-03 XMB-02 OPIC-03

LAB-04 SIL-01 /161 W

-----091109 060619Z /23

R 041650Z NOV 77

FM AMEMBASSY LAGOS

TO SECSTATE WASHDC 4705

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY CARACAS

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LIBREVILLE

AMEMBASSY LONDON

AMEMBASSY QUITO

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

USINT BAGHDAD

AMCONSUL DHAHRAN

AMCONSUL KADUNA

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E.O. 11652: N/A

TAGS: ENRG, NI

SUBJECT: NIGERIAN CRUDE OIL PRODUCTION SLUMPS

REF: LAGOS 11435

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1. PRELIMINARY ESTIMATES BY OIL COMPANIES INDICATE NIGERIAN CRUDE OIL PRODUCTION IN OCTOBER FELL 148,000 B/D, OR MORE THAN 7 PERCENT, TO 1,864,820 B/D. THIS REPRESENTS LOWEST LEVEL OF PRODUCTION SINCE AUGUST 1975.

2. WORST DECLINE REGISTERED BY LARGEST PRODUCER SHELL-BP,

WHOSE FORCADOS TERMINAL WAS SHUT DOWN COMPLETELY FOR PART OF MONTH AS RESULT OF STRIKE BY JUNIOR STAFF. STRIKE HAS ALSO DELAYED RELEASE OF FINAL COMPANY-BY-COMPANY FIGURES FOR SEPTEMBER. THESE WILL BE TRANSMITTED AS SOON AS AVAILABLE.

3. CURRENT GLUT IN WORLD MARKET FOR LIGHT, LOW-SULPHUR CRUDES APPERS TO BE MAIN CAUSE OF NIGERIA'S PRODUCTION WOES. ADMITTEDLY NIGERIA'S OIL IS OVERPRICED AS RESULT OF FMG DECISION TO HIKE PRICE LAST APRIL EVEN THOUGH OTHER LIGHT CRUDE PRODUCERS DID NOT FOLLOW SUIT. HOWEVER, EVEN BUYERS WHO HAVE DECIDED AGAINST RENEWING THEIR CONTRACTS HAVE CONCEDED THAT IF THEY WERE IN NIGERIAN NATIONAL PETROLEUM COPORATION'S (NNPC'S) SHOES THEY WOULD PROBABLY NOT SLASH PRICES IN AN ATTEMPT TO SELL MORE OIL IN THE FACE THIS KIND OF MARKET.

4. ONE U.S. BUYER WHO CONDUCTED NEGOTIATIONS ON CONTRACT RENEWAL LAST WEEK OF SEPTEMBER SAID HE FOUND NNPC CRUDE SALES MANAGER OLADIRAN FAWIBE FULLY AWARE OF CURRENT LIGHT CRUDE GLUT. FAWIBE CONCURRED WTH COMPANY'S ESTIMATE THAT GLUT WOULD CONTINUE AT LEAST THROUGH FIRST HALF OF 1978, AND AGREED THAT NNPC OFFICIAL PRICES WERE FAR HIGHER THAN SPOT MARKET. AT THAT TIME, FAWIBE SAID HE WAS NOT OVERLY WORRIED AT PROSPECT CLOSING SEVERAL CUSTOMERS SINCE OTHERS, LIKE BRAZIL, COULD BE COUNTED ON TO BUY MORE (FYI THIS IS NOT WHAT BRASILIANS HAVE TOLD US). IN ANY CASE, FAWIBE CONTINUED, PRESSURE FOR INCREASED SALES WAS COMING FROM MINISTRY OF FINANCE, LIMITED OFFICIAL USE

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NOT NNPC, WHOSE POLICY WAS THAT NIGERIA OUGHT RATHER TO BE CONSERVING ITS OIL INSTEAD OF TRYING TO SELL AT A DISCOUNT. NIGERIA WOULD FEEL THE PINCH, BUT IT COULDN'T BE HELPED.

5. FAWIBE CABLED SAME BUYER SHORTLY THERAFTER AND ASKED THAT HE RETURN TO LAGOS OCTOBER 15 TO DISCUSS FOURTH QUARTER CONTRACT. AT THIS MEETING FAWIBE TOLD BUYER THAT NNPC UNDERSTOOD ITS CLIENTS WERE HAVING TROUBLE SELLING OIL AT OFFICIAL PRICES IMPOSED UPON THEM. ALTHOUGH NNPC SYMPATHETIC, ITS FREEDOM TO OFFER RELIEF CONSTRAINED BY THREE FACTORS: BUDGET REQUIREMENTS OF THE COUNTRY; NIGERIA'S RELATIONSHIP WITH OTHER OPEC MEMBERS; AND THE DESIRE TO ADOPT STEADY, CONSISTENT PRICE POLICIES. FAWIBE THEN INFORMED BUYER THAT HE TOGETHER WITH NNPC MANAGING DIRECTOR MARINHO AND INSPECTORATE DIVISION MANGER OKANLA HAD RECENTLY VISITED ALGERIA AND LIBYA TO DISCUSS BRINGING PRICES BACK INTO LINE. AS A RESULT, NNPC WAS PROPOSING THAT IF BUYER RENEWED ITS NORMAL CONTRACT FOR BONNY LIGHT IN FOURTH QUARTER, IT WOULD RECEIVE REBATE AT END OF QUARTER OF TEN CENTS PER BARREL (FIFTEEN CENTS ON BRASS RIVER). REBATE WOULD BE CONTINGENT ON LIFTING FULL CONTRACT VOLUME AND COULD BE OBTAINED EITHER IN CASH OR APPLIED AGAINST 1978 LIFTINGS.

6. BUYER RESPONDED THAT WHILE HIS COMPANY VERY MUCH APPRECIATED NNPC OFFER, REBATE SIMPLY TOO SMALL TO MAKE ANY DIFFERENCE. BUYER SAID HE KNEW NNPC HAD ALREADY LOST CONTRACTS TOTALLING 200,000 B/D (FYI BUYER TOLD PETROLOFF CUSTOMERS WERE SHELL HOUSTON, PHILIPP BROTHERS, CITIES SERVICE AND POSSIBLY VEBA-GELSENBERG) AND MIGHT LOSE MORE, AND SHOWED FAWIBE COPY OF OCTOBER 17 PIW WITH FULL DETAILS OF REBATE OFFER. FAWIBE APPEARED VISIBLY TAKEN ABACK AND MUTTERED SOMETHING TO EFFECT THAT PIW IS A TROUBLE MAKER WHOS PREDICTIONS BECOME SELF-FULFILLING. FAWIBE THEN ADMITTED THAT TEN CENT REBATE MIGHT NOT BE ENOUGH, BUT ASSURED BUYER NNPC WOULD PROBABLY BE ABLE TO OFFER GREATER RELIEF IN 1978 (PRESUMABLY AFTER CARACAS).

7. BUYER TOLD PETROLOFF THAT FAWIBE INFORMED HIM THAT FMG'S LIMITED OFFICIAL USE

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NATIONAL BUDGET HAS BEEN PREDICATED ON OIL PRODUCTION OF 1.8 MILLION BARRELS PER DAY. SINCE OIL PRODUCTION IN OCTOBER HAS FALLEN TO THAT LEVEL, FMG OFFICIALS ARE OBVIOUSLY CONCERNED. PETROLOFF UNDERSTANDS THAT NNPC, UNDER INSTRUCTIONS FROM HEAD OF STATE OBASANJO, HAS ASKED ALL OIL PRODUCING COMPANIES FOR LIST OF THEIR CONTRACTS WITH U.S. FIRMS IN PREPARATION FOR VISIT OF PRESIDENT CARTER. IF NIGERIAN CRUDE SALES AND PRODUCTION CONTINUE TO DROP DURING NOVEMBER, IT MAY BE THAT HEAD OF STATE WILL WISH TO DISCUSS WITH PRESIDENT CARTER POSSIBILITY OF INCREASING SALES TO U.S., PERHAPS FOR U.S.G. STRATEGIC RESERVE;
EASUM

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